

ORIGINAL  
BEFORE THE  
POSTAL RATE COMMISSION

INTERNATIONAL COSTS AND  
REVENUES

DOCKET NO. IM99-1

COMMENTS OF UNITED PARCEL SERVICE IN  
RESPONSE TO COMMISSION ORDER NO. 1226  
(January 29, 1999)

Pursuant to Commission Order No. 1226, United Parcel Service ("UPS") submits these comments on the subjects raised by the Commission in that Order.

PRODUCTS TO BE ANALYZED

The Commission has invited interested parties to "identify the international mail products or services that they believe should be analyzed in the report required by [39 U.S.C.] § 3663, and to discuss their reasons for believing that these products should be included." Order No. 1226 at 3. Section 3663(b) requires the Commission to analyze "**each** international mail product or service." 39 U.S.C. § 3663(b) (emphasis added). The Attachment to the Commission's Order appears to be a reasonably complete list of the Postal Service's international products.<sup>1</sup> UPS suggests that the Commission

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1. The list does not include International Business Reply Service (see Postal Service Publication 51, October 1997, at 16), International Postal Money Orders (*id.* at 16), Canada Admail (see 64 Fed. Reg. 2855, Jan. 19, 1999), or Mexico Direct service (see International Mail Manual § 611), nor does it list all subclasses or subgroupings of certain services (such as the presort and nonpresort options for International Priority Airmail, see Publication 51 at 11).



require the Postal Service to furnish as soon as possible a complete list of all of its international products and services in order to ensure that, as contemplated by the statute, all services are analyzed.

UPS realizes that since this is the first year to which § 3663 applies, the Commission may not be able to do a complete analysis of the costs, revenues, and volumes for each and every international service. To the extent that the Commission is forced by circumstances to focus on less than all services, UPS suggests that the Commission ought to focus its concern on: outbound letters, cards, and aerograms as a whole; Other Articles as a whole; Outbound Parcel Post Air; Outbound Parcel Post Surface; Express Mail International Service; International Priority Airmail; International Surface Airlift; Global Priority Mail; Global Package Link; and International Customized Mail.<sup>2</sup>

Based on the limited information that is now publicly available, UPS believes that each of these services meets one or both of the following criteria: (1) these services have the largest volumes, or (2) they face the most intense competition. These factors are the most appropriate selection criteria because the purpose of § 3663 is to assure the public that international rates are fair and equitable, in that the rates for each service pay all of the costs of the service and make a reasonable contribution to overhead costs, so that there is no cross-subsidy. If this "no cross-subsidy" test is met, users who pay the rates cannot complain, and unfair competition will be avoided. The Commission should require the Postal Service to provide as soon as possible the volumes for each international service, so that the Commission can determine which services merit closer scrutiny.

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2. UPS is not familiar with the service identified in the Attachment to the Commission's Order as "Global Parcel Services."

As noted *supra* (in footnote 1), some of these services have subclasses, many of which are listed in the Attachment to the Commission's Order. There are other subclasses which are not listed in that Attachment. For example, International Priority Airmail contains presort and nonpresort categories. Similarly, there are three different categories of Global Priority Mail: the flat rate envelope rates (also known as WORLDPOST Priority Letter, see 60 Fed. Reg. 14370, March 17, 1995), the variable weight option, and separate volume rates. To the extent the Commission has the time and the resources to investigate the costs, revenues, and volumes of these and the other subclasses listed in the Attachment, it should do so. However, UPS suggests that the Commission first concentrate its efforts on the groupings listed above.

#### THE DATA NEEDED FOR THE ANALYSIS

The Commission apparently has already determined that the data in the International Cost and Revenue Analysis ("ICRA") report and supporting data comparable to that provided in the domestic Cost Segments and Components report is necessary for its analysis. See Order No. 1226 at 3. UPS agrees that obtaining this information should provide a good start for the required costing analysis.

As experience under the domestic ratemaking scheme demonstrates, accurate costing generally requires more detailed data than is available in those reports. Because of the relative lack of publicly available information on the Postal Service's international services and the operations necessary to provide those services, the novelty of this undertaking, and the short time the Commission has to do its work, it is difficult at this point to identify with a great deal of specificity the additional data that are likely to be helpful or necessary. A more detailed identification of the additional data that should be provided may be possible once the ICRA and the international version of the Cost Segments and Components report are available. However, UPS suggests that the following additional data will be helpful or necessary to the Commission's task:

1. A description of how the Postal Service allocates costs to its international services, including a description of any sampling or other costing systems it uses in doing so. For example, the Postal Service should indicate whether there are international analogs to its domestic In-Office Cost System or to TRACS.

2. Handbook T-5, *International Mail Operations* -- A thorough understanding of mailflows for each of the different international services is necessary to identify the separate operations performed to provide, and therefore the costs of, each service. This handbook should assist in constructing mailflows.

3. Any additional operations or other manuals for each service.

4. Handbook F-59, *International Exchange Office Procedures* -- Again, this handbook may shed light on the operations that cause costs to be incurred for some or all international services, thereby enabling the Commission to be more specific in identifying helpful or necessary cost data.

5. For each international product, the cost of any resources dedicated to providing that particular service during the most recent fiscal year. We understand, for example, that there is a dedicated accounting unit for Express Mail International Service ("EMIS"). There may also be dedicated advertising expenses (for Global Priority Mail, for example, or for other competitive products, where the incentive to advertise is greatest) and dedicated transportation costs in the case of time-sensitive services.

6. The costs incurred by the Postal Service for creating and operating its electronic customs clearance system, developed primarily (if not exclusively) for the Global Package Link service.

7. The costs paid by the Postal Service during the most recent fiscal year to contractors who deliver certain international products, broken out by service (we understand that in certain areas the Postal Service uses agents other than foreign postal administrations to deliver EMIS or Global Package Link shipments).

8. The “Transit Charges” incurred during the most recent fiscal year in the case of each service, whether those charges are imposed pursuant to Article 48 of the Convention of the Universal Postal Union (“UPU”) or pursuant to other multilateral or bilateral agreements.

9. The “Air Conveyance Dues” incurred during the most recent fiscal year for each international service, whether imposed pursuant to Article 52 of the UPU Convention or pursuant to other multilateral or bilateral agreements.

10. All agreements which set the “Terminal Dues” or rates of compensation establishing the payments required to be made by the Postal Service to foreign postal administrations for delivering each international product, whether those terminal dues are imposed pursuant to Article 49 of the UPU Convention or pursuant to other multilateral or bilateral terminal dues agreements.

11. The “imbalance payments” which the Postal Service is obligated to pay for each international product pursuant to the Postal Service’s terminal dues or similar multilateral or bilateral agreements.

12. To determine the actual cost to the Postal Service of having its outbound volumes delivered in a particular foreign country, the Commission must not only identify any imbalance payments made by the Postal Service, but also the cost incurred by the Postal Service in handling and delivering the matching inbound volumes from that country. To do so, the Commission must know the matching volumes for that service for each foreign destination, and then distribute to the Postal Service’s outbound international product the costs of delivery incurred by the Postal Service in exchange for the foreign postal administration’s delivery of the corresponding volume of United States origin mail.

13. The Commission should also determine the costs of the Postal Service’s participation in any joint ventures with foreign postal administrations that benefit some

(but not all) international products (such as the Postal Service's share of the cost of the Brussels hub).

14. UPS understands that relatively new units of the Postal Service known as the International Business Unit and the Global Support Center were created to serve either Global Package Link customers exclusively, or only certain competitive international services including Global Package Link. These costs should not be allocated to products which do not benefit from them.

### OTHER ISSUES


This first effort by the Commission to analyze the costs, revenues, and volumes of each of the Postal Service's international products and services will undoubtedly not yield a perfect result this year, given the novelty of the undertaking and the short time in which it must be accomplished. The Commission's initial report should indicate that fact.

UPS submits that maximum participation by interested parties will undoubtedly improve the results. Accordingly, the Commission should periodically seek the input of interested parties on the issues faced by the Commission in this daunting task.

In its Order, the Commission notes, "Questions of commercial sensitivity should not be an obstacle to submission of data for the Commission's analysis, since the Commission has procedures that allow it to maintain and analyze *in camera* data found to be commercially sensitive." Order No. 1226 at 3. We presume that the Commission is here referring to Sections 25(f), 26(d), and 31a of its Rules of Practice, 39 C.F.R. §§ 3001.25(f), 26(d), and 31a. UPS submits that the cost and other data examined by the Commission to compile its report and the costing methods considered should be made available to interested parties -- under suitable protective conditions for some data, if appropriate -- so that the twin purposes of § 3663 are met: to ensure that the rates for each international product or service are fair and equitable, and to assure interested parties that those rates are fair and equitable. As the history of domestic

ratemaking has shown, maximum participation by interested parties has resulted in improved accuracy in determining the costs of the various domestic products provided by the Postal Service. We believe that interested parties are, if provided an adequate opportunity, in a position to assist the Commission in meeting the statutory mandate imposed on it by Section 3663.

Respectfully submitted,



John E. McKeever  
Nicole P. Kangas  
Attorneys for United Parcel Service

PIPER & MARBURY L.L.P.  
3400 Two Logan Square  
18th and Arch Streets  
Philadelphia, PA 19103  
(215) 656-3300  
and  
1200 19th Street, N.W.  
Washington, DC 20036  
(202) 861-3900

Of Counsel

Dated: January 29, 1999

CERTIFICATE OF SERVICE

I hereby certify that on this date I have caused the foregoing document to be served on the United States Postal Service by first class mail, postage prepaid, in accordance with Section 12 of the Rules of Practice.

Nicole P. Kangas  
Nicole P. Kangas

Dated: January 29, 1998  
Philadelphia, PA